

Self-Employment Tax

Franchise Tax Board Announcement

The federal 2010 Tax Relief Act increased the amount of self-employment tax that may be deducted in computing federal adjusted gross income. **California has not conformed to this change.** For state income tax purposes, taxpayers may only deduct 50 percent (50%) of the self-employment tax paid in computing state adjusted gross income.

The majority of self-employed taxpayers have not yet filed their 2011 tax return. We have updated forms and instructions and contacted all software companies to make this update. Make sure your tax preparation software allows for the Schedule CA line 27 adjustment if necessary. The following example shows how to compute this deduction:

Self-Employment Taxes Paid, Form 1040 line 56(or 1040NR line 54)	\$2,000
Federal Deduction Allowed, Form 1040/1040NR, line 27	\$1,150
Less: California Deduction Allowed, 50% of self-employment taxes paid	\$1,000
Schedule CA, line 27 (column b) adjustment	\$ 150

Important: Self-employed taxpayers who have already filed a return using the higher federal rate do not need to file an amended return. In order to reduce taxpayer burden, FTB is sending a letter to a limited number of taxpayers based on available information and considering the time and effort involved to revise this deduction. The letter will include an explanation of the issue, proposed corrected amounts, and allow taxpayer response before issuing a tax bill. Taxpayers who have already filed and are not contacted by FTB do not need to file an amended return.

For more information on this issue, please see [Legal Division Guidance 2012-02-01](#) located on FTB's website: ftb.ca.gov